

ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the Superintendent of Public Instruction

July 1, 2001, through June 30, 2002



KATHLEEN CONNELL
California State Controller

September 2002

Contents

Executive Summary	1
Introduction.....	3
Financial Indicators	
Overview.....	4
Interim Reporting.....	4
Deficit Spending	5
Emergency Apportionments	6
General Fund Revenues and Expenditures	6
General Fund Balances	7
Long-Term Borrowing.....	8
Lottery Revenues	9
Program Compliance	
Overview.....	11
Compliance Findings	11
Reporting of Findings	12
Build-Upon Audits.....	12
Quality Control	
Overview.....	19
Audit Report Certifications.....	19
Reporting Deficiencies	20
Timely Submissions.....	20
Average Audit Cost Per ADA	21
Appendices	
Appendix A—Audit Report and Interim Report Disclosures of Impending Financial Problems	22
Appendix B—School Districts Filing Qualified or Negative Interim Reports.....	24
Appendix C—Summary of Audit Report Problems.....	27
Appendix D—Summary of Audit Report Compliance Findings	30

Executive Summary

The State Controller has broad authority to oversee state and federal funding of California's public schools from kindergarten through the 12th grade (K-12). The State Controller's goal is to promote greater fiscal accountability by local school districts.

This oversight responsibility includes reviewing annual school district audit reports, maintaining a database with financial and statistical data on school district audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, providing guidance and assistance to independent auditors through the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, and conducting financial and program audits at various school districts.

This year's report contains the following key findings:

- Fiscal year (FY) 2000-01 marked the tenth consecutive year that California's local education agencies as a whole did not spend more money than they received—an indication that local education agencies are maintaining reserves and spending within their means.
- Three school districts had very low fund reserves (1% or less of their general fund expenditures)¹ in FY 2000-01, the same number as in the previous year.
- The number of districts engaged in multi-year deficit spending decreased during FY 2000-01. Compared to 112 districts in the prior year, 83 districts in FY 2000-01 engaged in multi-year deficit spending, a 25.9% decrease. Although some school districts may have legitimate needs to engage in multi-year deficit spending (such as for building projects), this practice is often an indication that a district is facing financial difficulty.
- Long-term borrowing increased by \$410 million during FY 2000-01 to a total of \$2.77 billion, compared to \$2.36 billion in the prior year, a 17% increase.
- The number of districts filing negative or qualified certifications relating to their ability to meet their financial obligations for the current and subsequent two fiscal years increased significantly, from 24 in FY 2000-01 to 40 in FY 2001-02. Thirty-four school districts filed qualified interim financial reports and six school districts filed negative interim financial reports in the second reporting period of FY 2001-02, indicating that they may not meet their current and future financial obligations. Continuing financial difficulties may have a negative impact on the district's educational programs.

¹ Title 5, *California Code of Regulations*, Sections 15443 and 15456 establish standards for minimum reserves.

- The number of state and federal compliance findings in FY 2000-01 decreased from the prior year. Approximately 34% of the compliance findings are related to deficiencies in average daily attendance accounting. Average daily attendance (ADA) is the primary factor in determining the amount of funding a school district receives from the State.
- The school districts' annual audit reports disclosed 112 audit findings for the 886 elementary school districts participating in the class-size reduction program. There were also 74 audit findings for the 985 K-12 school districts and 58 county offices of education that received state instructional materials funds.
- The State Controller's Office audits of school districts' attendance accounting and compliance with state programs disclosed additional deficiencies that were not reported by the independent auditors.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual school districts by independent certified public accountants for FY 2000-01. Additional data came from interim financial report certifications submitted by school districts during FY 2001-02 and from audits conducted by the State Controller's Office.

Introduction

The State Controller's Office oversight role in the K-12 fiscal process is administered by its Division of Audits. Oversight activities focus primarily on three areas: financial indicators, program compliance, and quality control.

The State Controller's Office also has responsibilities relating to the financial oversight of school districts (including county superintendents of schools), in accordance with *Education Code* Section 14500. These responsibilities include:

- Publishing an annual audit guide¹, which prescribes financial statements and other information that should be included in each school district's audit report. This publication provides guidance to the independent auditors conducting school district audits;
- Reviewing each school district's audit report submitted to the State and performing the associated follow-up actions, including compliance audits²;
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;
- Conducting selected school districts' annual financial and compliance audits as a condition of the districts' receiving emergency state apportionments;
- Ensuring that satisfactory arrangements for an annual audit have been made for each school district; and
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

¹ The *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide) is published by the State Controller's Office. The *Education Code* states that the Controller, in consultation with the California Department of Education, the California Department of Finance, a representative of the county offices of education, and representatives of the California Society of Certified Public Accountants, shall prescribe the statements and other information to be included in the audit reports filed with the State and shall develop an audit guide to carry out the purposes of this chapter. Prior to the issuance of the audit guide, the Controller shall submit a copy of the audit guide to the Department of Finance for review to ensure that all compliance requirements are properly included.

² Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations. These program funds (restricted revenues) comprise, on average, approximately 25% of a school district's total funds.

Financial Indicators

Overview

Assembly Bill 1200, enacted in 1991 (Chapter 1213), put school district finances under the control of county offices of education and the California Department of Education. The law protects the public's interest in education by giving county offices of education specific responsibility for fiscal oversight of districts within their jurisdictions.

Key financial indicators representing the financial health of school districts are presented in this chapter. Most of the indicators use data from annual audit reports prepared by independent certified public accountants (CPAs) for FY 2000-01. State law requires school districts approximately six months after the end of a fiscal year to submit an independent audit report to the State Controller's Office and the California Department of Education. Additional data comes from interim financial report certifications submitted by school districts during FY 2001-02 and from audits conducted by the State Controller's Office. Each section of the report specifies the fiscal year for which the data was obtained.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and county office of education. These interim reports must be completed twice a year by every school district (to cover the periods of July 1 through October 31, and November 1 through January 31), and must be reviewed by the appropriate county superintendent of schools. The interim reports contain financial and program information on standardized forms as prescribed by the State Superintendent of Public Instruction.

One of the following three certifications must be designated by the school district or county office of education when certifying the district's fiscal stability on the interim report.

Positive: A school district or county office of education that **will** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Qualified: A school district or county office of education that **may not** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Negative: A school district or county office of education that **will not be able to** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

School districts that file qualified or negative interim reports work with their county superintendent to implement corrective action. Copies of the qualified or negative certifications are forwarded to the State Controller's Office and the State Superintendent of Schools.

Significant increase in number of districts filing qualified or negative certifications

During FY 2001-02, 30 of the 985 school districts and 58 county offices of education in the State filed a qualified certification, and 8 districts filed a negative certification for the first period interim report. Of the 38 districts, 25 filed a second period qualified or negative interim report while 13 districts were able to take corrective action. However, an additional 15 districts filed qualified second period interim reports, for a total of 40 districts filing qualified or negative certification for the second period interim report (Table 1). Thus, 53 districts reported qualified or negative classifications in at least one of the two periods (Appendix A). Fourteen school districts remained on the list from the prior year. School districts filing qualified or negative interim reports for two or more years are monitored closely by the State Controller's Office through continuous contact with the California Department of Education.

The most common causes of fiscal problems cited in qualified or negative certifications were the following:

- Deficit spending
- Inadequate reserves
- Overestimated revenues
- Declining enrollment
- Payroll/benefit problems

Table 1

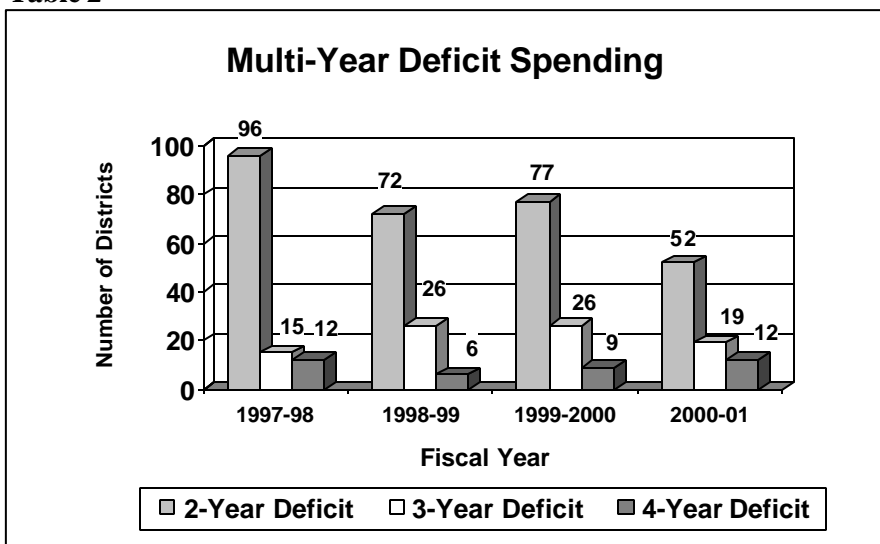
SECOND PERIOD INTERIM REPORTING HISTORY				
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02*</u>
Positive	1,037	1,027	1,021	1,003
Qualified	14	16	22	34
Negative	<u>1</u>	<u>3</u>	<u>2</u>	<u>6</u>
Totals	<u>1,052</u>	<u>1,046</u>	<u>1,045</u>	<u>1,043</u>
* Additional information regarding districts that filed qualified or negative interim reports during FY 2001-02 is provided in Appendices A and B.				

Deficit Spending

During FY 2000-01, single-year deficit spending decreased to 124 districts from 259 districts in the prior fiscal year. Deficit spending patterns are closely monitored by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

During FY 2000-01, the number of districts relying on multi-year deficit spending decreased significantly (Table 2). The biggest decrease was for two-year deficit spending (25 districts, or 32.5%). Districts relying on four-year deficit spending increased to 12 from 9 in the prior year.

**School district deficit
spending decreases**

Table 2
**Emergency
Apportionments**

When the governing board of a school district determines that the district's revenues are not sufficient to meet its current-year obligations, it may request an emergency apportionment through the State Superintendent of Public Instruction. As a condition of acceptance of the loan, the Superintendent will appoint a trustee to monitor and review the operation of the district. An insolvent district also may request and receive an emergency apportionment. It, too, will be assigned a trustee; the trustee will help the district to develop a five-year recovery plan.

**Emergency loan
repayments current**

During the past 20 years, the State has granted more than \$72 million in emergency loans to school districts. Currently, two districts have outstanding loans (Table 3). West Contra Costa Unified School District is meeting its repayment schedule. Emery Unified School District's first loan payment is due in September 2002.

Table 3

DISTRICTS WITH OUTSTANDING LOANS				
Fiscal Year	School District	Amount of Loan	Outstanding Balance	Final Repayment Date
1990-91	West Contra Costa Unified	\$28.5 million	\$20.0 million	February 1, 2018
2001-02	Emery Unified	\$2.3 million	\$2.3 million	July 31, 2020

**General Fund
Revenues and
Expenditures**

FY 2000-01 marked the tenth consecutive year in which total school district general fund revenues exceeded expenditures (Table 4). The number of districts able to accomplish this in FY 1992-93 was 757 (71%); in FY 1993-94, 636 (60%); in FY 1994-95, 504 (48%); in FY 1995-96, 803 (76%); in FY 1996-97, 724 (68%); in FY 1997-98, 685 (65%); in FY 1998-99, 732 (70%); in FY 1999-2000, 674 (64%); and in FY 2000-01, 833 (80%).

As school districts continue to spend less than they receive, they are able to increase their total fund balance, or surplus. The cumulative surplus for California school districts totaled \$5.216 billion at the end of FY 2000-01. That amount consisted of an increase of \$1.458 billion in total revenues over expenditures at the end of FY 2000-01. The surplus as of June 30, 2001, increased a net \$355 million over June 30, 2000, after adjustments for other sources and uses, such as expenditure reductions, planned reductions, and unrealized revenues. As part of the total fund balance, the districts are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

Table 4

SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (in billions)									
	Fiscal Years								
	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>
Revenues	\$23.507	\$24.531	\$24.955	\$26.746	\$29.778	\$32.893	\$35.715	\$38.793	\$44.262
Expenditures	<u>22.917</u>	<u>23.865</u>	<u>24.729</u>	<u>26.026</u>	<u>29.040</u>	<u>32.017</u>	<u>34.675</u>	<u>37.690</u>	<u>42.804</u>
Surplus	<u>\$.590</u>	<u>\$.666</u>	<u>\$.226</u>	<u>\$.720</u>	<u>\$.738</u>	<u>\$.876</u>	<u>\$ 1.040</u>	<u>\$ 1.103</u>	<u>\$ 1.458</u>

General Fund Balances

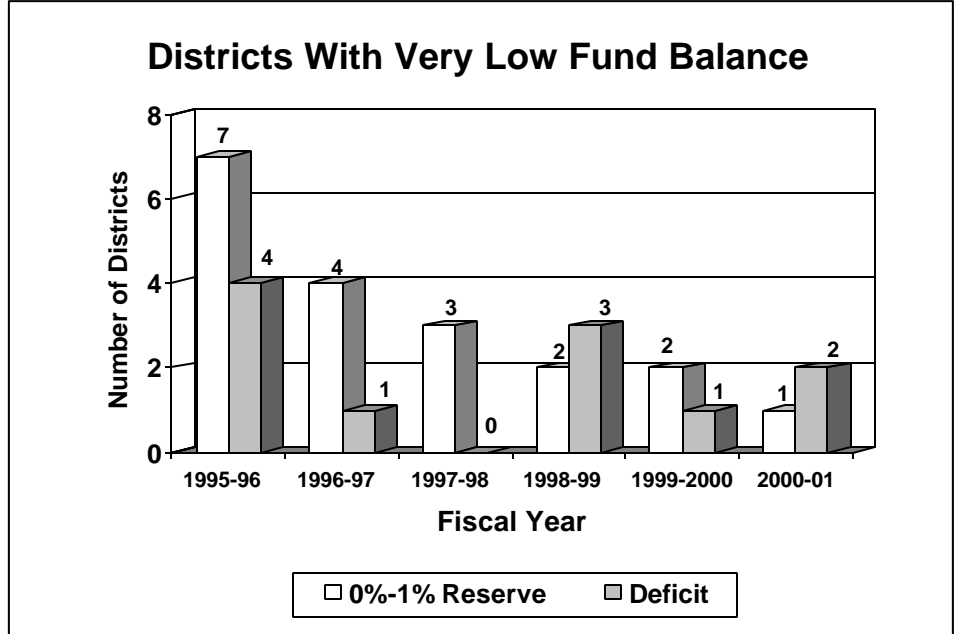
School districts report to county offices of education on projected general fund balances and reserve levels for the current period and two subsequent years in their interim reports. The primary purpose of this reporting is to identify potential deficit spending early in the process so the trend can be reversed.

Number of districts with very low reserves remained the same

The number of school districts with low fund balance reserves or deficit balances remained the same. At the end of FY 2000-01, 3 of 985 school districts and 58 county offices of education had low fund balance reserves (1% or less of general fund expenditures) (Table 5).

Only one district had a very low fund balance reserve and two districts had negative fund balances. This is a continuing improvement over the last seven years in the number of districts with very low reserves, from the high of eleven in FY 1995-96 to three in FY 2000-01.

Table 5



Long-Term Borrowing

School districts' long-term borrowing increased significantly

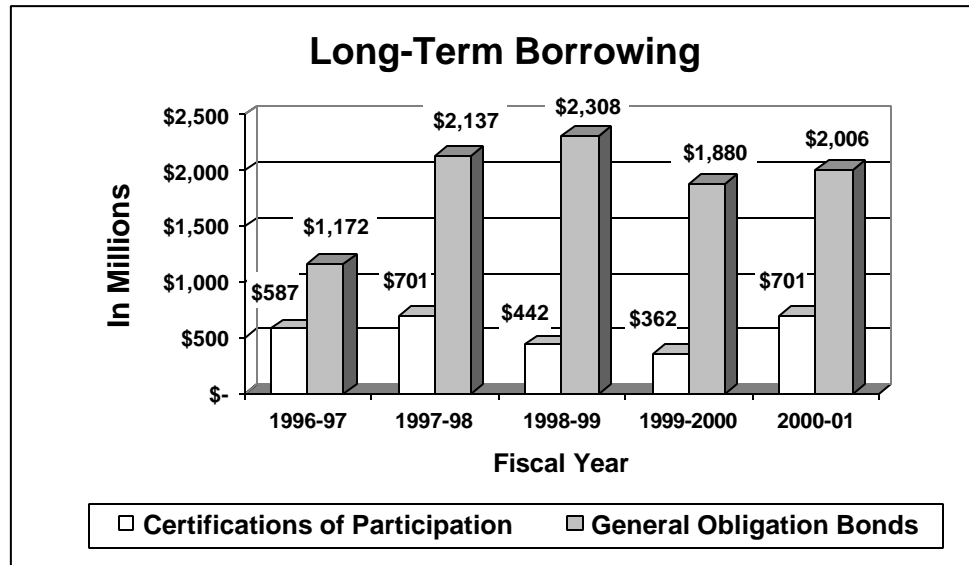
Generally, long-term debt is issued by districts to fund the purchase, construction, or lease of buildings and equipment; to refinance existing debt; or to buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

During FY 2000-01 school districts issued \$2.772 billion in long-term debt, an increase of \$410 million over the prior year (17%). Long-term debt financing included:

- **Certificates of Participation (\$701 million, or 25%)**—A financing technique that provides long-term financing through leasing of school facilities, such as buildings, with an option to purchase or a conditional sales agreement.
- **General Obligation Bonds (\$2.006 billion, or 73%)**—Bonds secured by the full faith and credit of the district. These long-term obligations generally are issued at more favorable rates than other types of debt because of their preferred status; that is, they are secured by the taxing authority of the district.
- **Limited Tax Obligation Bonds Instruments and Other Debt (\$65 million, or 2%)**—A financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

School districts issued \$2.707 billion in certificates of participation and general obligation bonds during FY 2000-01, an increase of \$465 million (20.5%) from the prior year's \$2.242 billion (Table 6).

Table 6



Financing through certificates of participation increased by \$339 million and financing through general obligation bonds increased by \$126 million over the prior year. The certificates of participation were issued by 73 school districts during FY 2000-01.

There is a continuing trend for districts to make greater use of general obligation bonds than other types of long-term debt. Certificates of participation accounted for 25% of long-term borrowing in FY 2000-01, a 10% increase over the previous year. In comparison, general obligation bonds accounted for 73% of long-term borrowing in FY 2000-01, a decrease of 6% from FY 1999-2000.

Lottery Revenues

The allocation of lottery revenues to K-12 school districts is based on a percentage of total lottery sales for the year. Under state law, a minimum of 34% of lottery sales must be distributed to school districts and community colleges. The division of this 34% between K-12 school districts and junior colleges fluctuates annually.

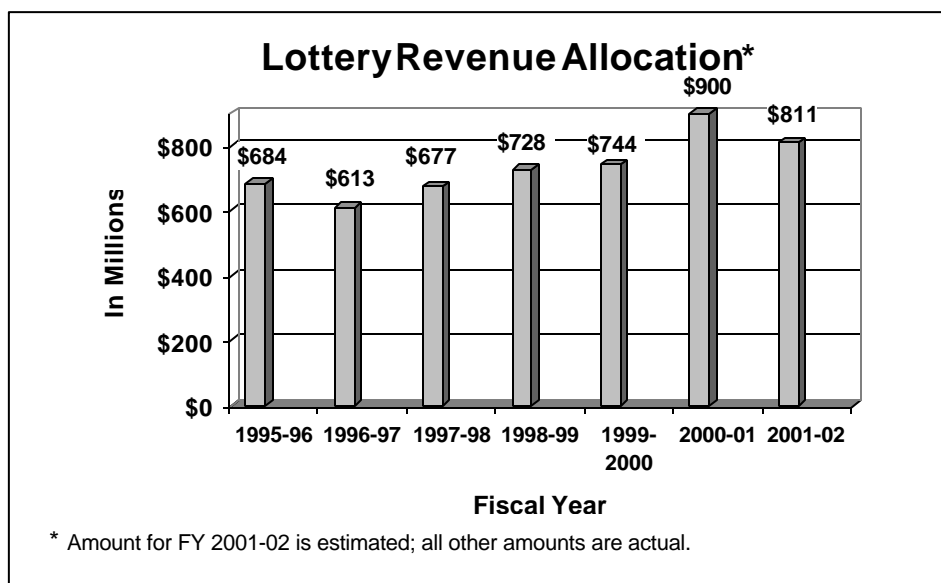
***Lottery revenues
projected to decrease
slightly***

The amount is distributed to each district based on its K-12 average daily attendance. The data regarding sales and allocations are maintained by the State Controller's Office and the California State Lottery.

Lottery revenue allocated to school districts increased due to higher sales. This was the fifth year of increase after a significant decrease in FY 1996-97. However, revenue for FY 2001-02 is projected to decrease by 9.9% from 2000-01 down to \$811 million³—about \$128 per K-12 average daily attendance (Table 7).

³ The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

Table 7



Program Compliance

Overview

The State Controller's Office also reports on program compliance issues as part of its review of annual audit reports, overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

Compliance Findings

School district auditors determine whether the districts and joint powers entities (JPEs) have complied with state and federal laws and regulations that may have a material effect on the financial position and operations of the organization or program(s) under audit. The JPEs are formed to provide a joint service to a group of districts and are governed by a board consisting of a representative from each member district. When a school district or JPE is not in compliance with applicable laws and regulations, the findings are communicated in the audit report.

The number of compliance findings contained in FY 2000-01 school district financial reports submitted by CPAs decreased from the prior year. There were 1,148 compliance findings in FY 2000-01, a 4.2% decrease from 1,198 reported in FY 1999-2000 (see Appendix D). The number of attendance accounting findings decreased by 133 (from 519 to 386, or 25.6%) from the prior year.

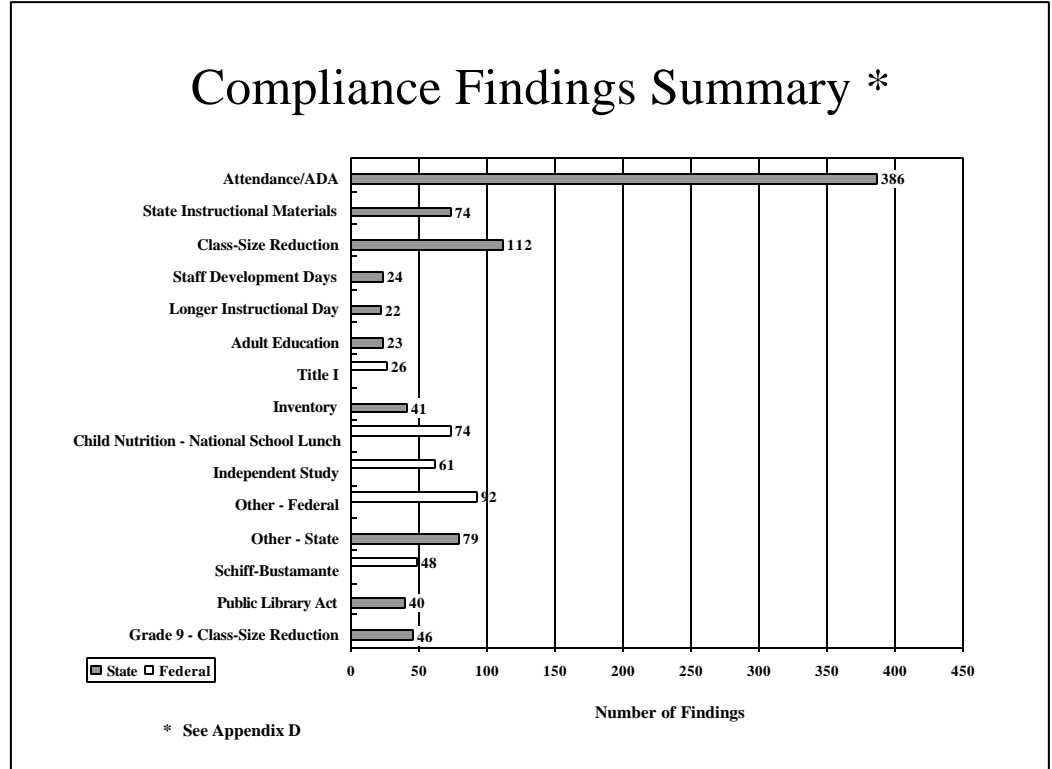
Some of the problems identified in the compliance findings may have a fiscal impact on district operations by causing a loss of state and federal funding. Of the 1,148 audit findings, 956 (83.3%) pertained to state programs and requirements, and 192 (16.7%) pertained to federal programs and requirements (see Table 8). Attendance-related findings accounted for 34% of compliance findings. The attendance findings were related to:

- Overstating ADA
- Kindergarten retention forms not being maintained and/or in compliance with state requirements
- Understating ADA
- Not reconciling attendance reports to supporting documentation
- Attendance reports being inaccurate or incomplete
- Not having attendance registers/scantrons signed by the teacher

The FY 2000-01 school district audit reports also found that 12.6% of the 886 elementary school districts participating in the class-size reduction program did not fully comply with program reporting requirements. The audits identified 112 findings relating to the class-size reduction program. Most of the findings pertained to inaccuracies in reporting class-size totals and daily enrollments, while others stemmed from the failure of districts to document teacher training.

The audits also disclosed 74 findings pertaining to the state instructional materials fund. Of these 74 findings, 64.86% (48) pertained to public hearing notice requirements and expending more than 30% allowance on non-adopted materials.

Table 8



Reporting of Findings

Annual audit reports by CPAs are the primary source of information regarding a school district's financial stability and its compliance with state and federal program requirements. Noncompliance with program laws and regulations is not always included in the audit reports. Some of these problems were either reported to the school district in the independent auditor's management letter or were undetected by the independent auditor.

Build-Upon Audits

The Single Audit Act of 1984, as amended in 1996, requires agencies that perform compliance audits to build upon the school district audits performed by independent CPA firms to avoid duplication. As a fiscal oversight agency, the State Controller's Office pursues unreported issues through supplemental audits, commonly called build-upon audits, and through other surveys of school districts' business and accounting practices. As a general rule, State Controller's Office auditors review the working papers of single audits performed by independent CPAs prior to conducting a build-upon compliance audit or survey.

***Build-upon audits
disclosed additional
deficiencies***

In FY 2001-02, the State Controller's Office performed build-upon audits mainly in the areas of attendance accounting and compliance with state programs. Based upon the results of the State Controller's build-upon audits, additional program deficiencies were discovered that were not reported by the districts' independent auditors.

***Principal audit
findings***

The State Controller's Office audits disclosed the principal audit findings listed below. The California Department of Education is responsible for following up on the findings to ensure that they are properly resolved.

Charter Schools

- Private schools were inappropriately converted to charter schools.
- Evidence of sectarian studies was observed at charter school sites.
- Teachers lacked proper credentials.
- The minimum daily instructional time offered was insufficient.
- Schools failed to comply with annual instructional time requirements.
- Independent study instruction was provided in a non-contiguous county.
- ADA was not supported by attendance records or was improperly reported.
- Supervisorial oversight fees were in excess of maximum amounts allowable by the *Education Code*.
- Independent Study agreements did not contain all the required elements.

Categorical Programs

- Categorical program funds were allocated insufficiently.
- School site councils lacked input in district master plan.
- Title I financial records contained numerous discrepancies.
- Pooled funds for private schools lacked supporting documentation.
- Funding for Innovative Projects program was not supported.
- Implementation of performance audit report recommendations could not be assessed.
- Services provided to private schools were not equitable.
- Central services provided to private schools were not equitable.

- Private school capital costs were not equitable.
- Documentation for categorical program expenditures was insufficient.
- Assurance that school site committees existed or fulfilled required advisory role was lacking.
- Assurance that school site councils developed central initiatives was lacking.
- Budgeted categorical funds were not allocated promptly or accurately.
- General funded positions were supplanted with federal program funds.

County Community Schools

- County community school pupils were inappropriately classified as eligible to generate the higher juvenile court school revenue limit.

ADA Accounting for Excused Absences

- ADA for excused absences was overreported due to (a) lack of attendance apportionment records and state teachers' registers, (b) supporting documents lacking one or more of the critical elements, and (c) excused absences claimed for invalid reasons.
- Attendance records were not maintained or retained.
- Reported excused absences could not be reconciled to supporting schedules due to mathematical and clerical errors.

School Construction and Repair Program

- The construction program lacked funding (\$1.774 billion deficit) to complete projects.
- The Proposition BB Bond goals and limits were unclear.
- The district used bond proceeds (\$724,000) to pay for consultants who acted as administrators.
- Ineligible costs of \$27.9 million were charged to the Bond Fund.
- Excessive management fees of \$60 million were charged to the BB Bond Program.
- The data management system and the cost reporting system were inadequate.
- Change orders were improperly processed and lacked monitoring.

Court/Federal Mandates

- Costs claimed for the class size reduction program were overstated.
- The magnet schools program cost was overstated.
- Fringe benefit costs for the year-round schools program were overstated.
- The indirect cost rate was overstated.
- The base year cost used by the district did not include the statutory cost of living adjustment for FY 1992-93. The reimbursement limit was understated.
- The ADA increase rate was overstated, causing the court-ordered desegregation program costs to be understated.
- Maintenance costs were understated for the Financial Reporting Database and overstated for the Integrated Financial System.

Voluntary Integration Program

- The base year cost used by the district did not include the statutory cost of living adjustment for FY 1992-93. The reimbursement limit was understated.
- The ADA increase rate was overstated, causing the 1998-99 program cost to be overstated.
- Transportation costs were overstated.
- Transportation costs were claimed for services not rendered.

Mandated Costs

In addition, the State Controller's Office audits of mandated cost claims disclosed principal audit findings as follows:

Collective Bargaining

- Insufficient documentation to support hours claimed by the Staff Relations Office staff.
- Time and travel costs were claimed for staff that attended Skelly hearings, regularly scheduled principals meetings, and SRO staff meetings, which are not allowable program costs.
- Salaries costs claimed with an accumulated cost spreadsheet did not identify the number of employees, names of employees, individual days worked, and hours worked.

- Only internal requisitions were provided for supplies costs; no invoices and cancelled checks are available to support that the costs were allowable and paid.
- Claimed materials costs in various workshops and subscriptions are not allowable program costs.
- Accounting records showing payments to various employees only supported travel costs; however, the accounting records did not identify the purpose of the travel.

Emergency Procedures

- 100% of labor costs claimed related to the Standardized Emergency Management System (SEMS) training program; however, only the pro rata share of the SEMS training costs directly associated with earthquakes is allowable.
- Supporting documentation for the actual attendance and the training dates was not sufficient. A certification letter signed by the administrator was the only documentation provided to support the claimed costs.
- Teachers' time was claimed as a trainee and as a trainer.
- Training sign-in logs used to support staff participation in the training did not reconcile to the claimed totals.
- Sign-in logs, time logs or time reports to support training dates and related staff time were missing.
- Crisis prevention training classes that were claimed are not allowable under the mandate.
- Supporting documentation for printing costs was missing. Request forms did not identify the documents that were printed. Claim only included a listing of materials and supplies without invoices or payment vouchers.
- The portion of supplies costs claimed that were directly related to the earthquake emergency procedures was not identified.
- The cost of supplies maintained on a regular basis (i.e., first aid kits, search-and-rescue kits) was claimed. These costs are not allowable costs under the mandate.
- Supply costs included duplicate invoices.
- Consultant costs related to the earthquake emergency procedures were not identified.
- An invoice for Consultant Services was not correct.

- Supporting documentation for workload to substantiate staff time related to allowable program costs was missing.
- The number of employees that attended the SEMS training was estimated. Sign-in records, training agendas, or other documentation to support actual attendance were missing.
- Monthly logs for staff that participated in disaster-related activities were based on estimates instead of actual time.
- A consultant that prepared the mandated cost claim prepared Director's monthly time logs. Claim for Director's time included time spent on non-earthquake related activities such as fire, flood, CPR, pesticide control, etc.
- Claimed staff time was based on estimated time instead of actual time per management instructions.
- An employee's time log was completed by another district employee and then provided to her for signature.
- Printing costs claimed were not sufficiently supported by the printing request records.
- Contracted service claims were not directly related to the earthquake and disasters mandate. The Disaster Survival Skills Workshop consisted of training for incidents such as rescue, triage, and fire control.

Pupil Health Screening

- Workload data to substantiate the staff time claimed was missing. The claim was based on estimates of time needed to perform the mandate activity.
- A subsequent time study provided to support staff time claimed was not valid. Employees who participated in the time study admitted that the monthly logs were completed based on estimated rather than actual hours spent performing mandated activities.

Pupil Exclusions

- Documentation was insufficient to support the claimed staff time.
- The number of pupil exclusions claimed was based on employees' estimates and was not sufficiently supported by employees' logs.
- Employees completed the monthly logs based on estimated rather than actual time spent performing mandated activities.
- Reasons for exclusions were not specified and invalid exclusions were claimed.

Charter Schools

- Documentation was insufficient to support the claimed staff time. Documentation provided consisted of claimed hours based on individual estimates of time spent.
- A subsequent time study, which was completed using actual time spent on mandated activity, did not fully support claimed salaries and benefits.
- Contract service costs were inappropriately claimed as materials and supplies.
- Documentation was insufficient to support claimed supply costs.

Intradistrict Attendance

- Claimed costs based on estimates of school principals' hours did not provide adequate documentation to substantiate that these costs could be charged to the mandate.
- Daily logs or time records to record principal names, dates, and hours to determine if time was actually spent on mandated activities were missing.
- The number of intradistrict transfers processed during the analysis period was not documented.
- Intradistrict transfers per site were based on FY 1999-2000 figures instead of the actual number of intradistrict transfers for the review periods.
- Estimated costs were used for administrative staff who performed evaluations of Demographics Impact.

Habitual Truant

- Documentation to support staff time was missing. Documentation provided consisted of hours derived from applying a percentage of school counselors' yearly contract hours. No reasonable basis for this application was provided. A subsequent time study based on actual time records supported a portion of the claimed costs.

Quality Control

Overview

The State Controller, under *Education Code* Section 14504, reviews and certifies the annual independent audit reports submitted by each school district, county office of education, and joint powers entity (JPE) for compliance with audit guidelines set out in the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide).

Audit Report Certifications

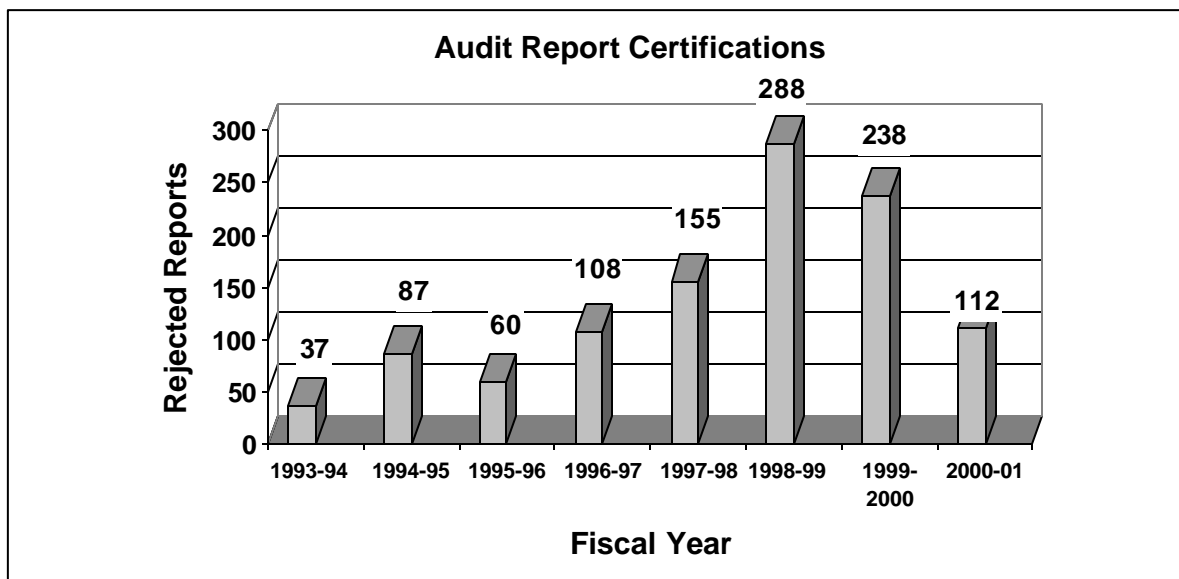
The State Controller's Office determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and provides notification to each school district, county office of education, independent auditor, and the State Superintendent of Public Instruction regarding the acceptance or rejection of each report.

For FY 2000-01, 89% of the audit reports were accepted; the remaining 11% were rejected upon initial review. The rejected audit reports were subsequently accepted after the independent auditors made requested corrections. Rejection of the auditor's report is accompanied by a penalty whereby the independent auditor does not receive the 10% service fee retained by the district until the audit report has been corrected and certified by the State Controller's Office. In addition, if an independent auditor has had a report rejected (and not subsequently corrected) for the same district for two consecutive years, the auditor may be referred to the State Board of Accountancy for professional review.

Significant decrease in rejected audit reports

The number of rejected reports decreased by 126 (from 238 to 112) from the prior year, a 53% decrease (Table 9). The rejections resulted mainly from errors in meeting state compliance requirements and quantifying the fiscal impact of state compliance findings.

Table 9

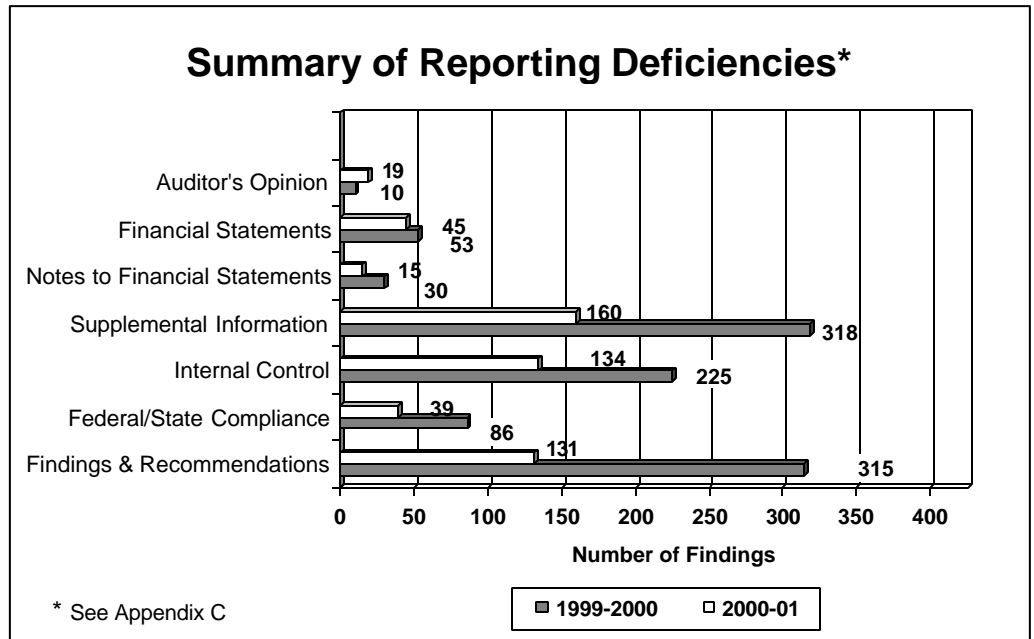


Reporting Deficiencies

Overall reporting deficiencies decreased significantly

Upon initial review, the State Controller's Office certified 932 (89%) of the 1,043 audit reports submitted by independent CPAs for FY 2000-01.

Table 10



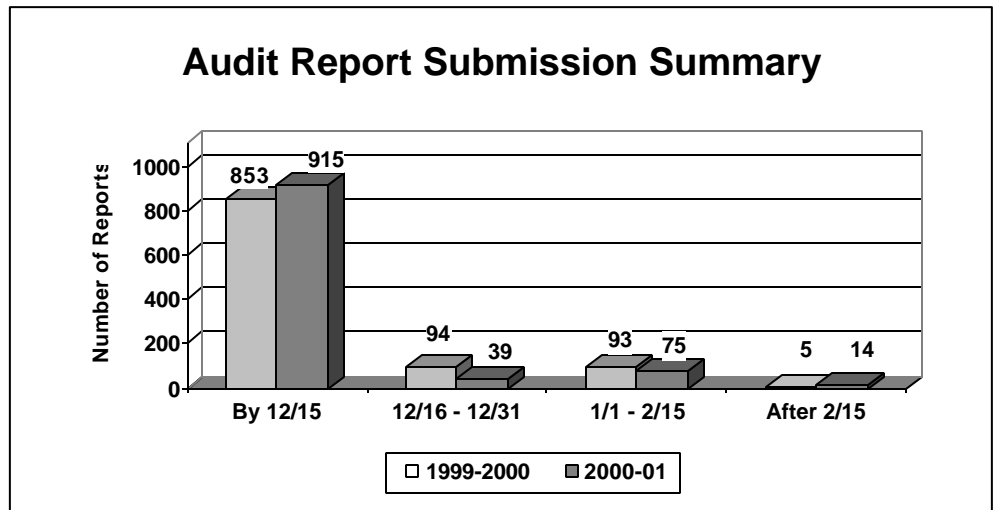
The number of reporting deficiencies in a variety of report areas decreased significantly. For FY 2000-01, there were 543 reporting deficiencies, a decrease of 494 from the prior year (Table 10).

Timely Submissions

Overall increase in number of annual reports submitted before the deadline

Audit reports for the preceding fiscal year must be filed with the State Controller's Office, the California Department of Education, and the county superintendent of schools by December 15. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Table 11



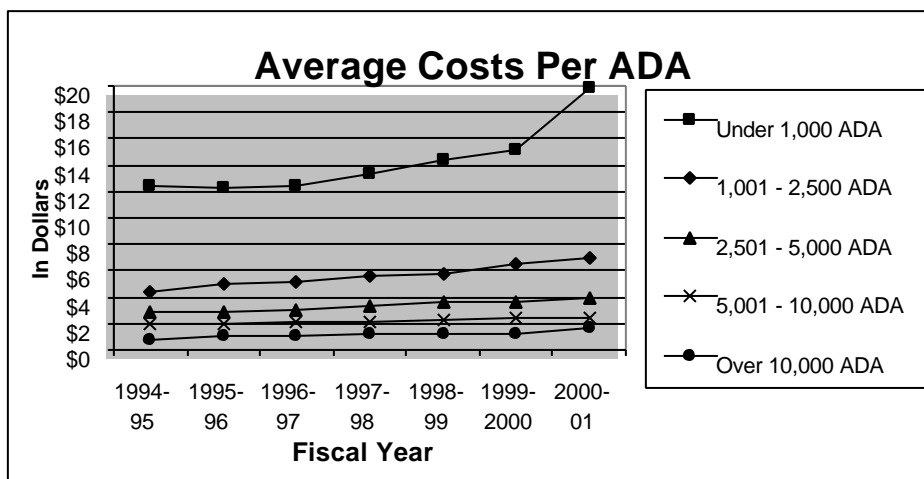
Average Audit Cost per ADA

*Average audit costs
increased slightly*

There was an increase in the number of annual audit reports submitted before the deadline (Table 11). During FY 2000-01, 62 more reports were received by the December 15 deadline. The majority of annual reports—915 of 1,043, or 88% —were submitted by that date.

The State Controller's Office maintains a database of information pertaining to audit contracts between local school districts and independent auditors. From that database, the total audit costs and cost per audit were determined, on a per unit of ADA basis, for school districts' annual audits. Audit costs for the FY 2000-01 audits totaled \$14.76 million, an increase of \$800,000, or 5.7%, over total audit costs of \$13.96 million for FY 1999-2000.

Table 12



The average audit cost per ADA increased slightly over the prior year. The largest increase of 32.38% (\$.41) was for districts over 10,000 ADA.

Appendix A— Audit Report and Interim Report Disclosures of Impending Financial Problems

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2000-01 Average Daily Attendance	2001-02 Interim Report ¹		2000-01 Interim Report ¹ Second
				First	Second	
Alameda County:						
Albany Unified	No	No	3,025	N	Q	P
Berkeley Unified	Yes	Yes	10,694	N	N	P
Emery Unified	Yes	Yes	915	N	N	N
Amador County:						
Amador County Office	Yes	Yes	250	Q	Q	Q
Amador County Unified	Yes	Yes	4,393	Q	Q	Q
Contra Costa County:						
Canyon Elementary	No	No	69	Q	P	P
Pittsburgh Unified	No	Yes	9,594	Q	P	P
Fresno County:						
Coalinga-Huron Unified	No	No	3,847	P	Q	P
Washington Union High	No	No	1,232	P	Q	P
West Fresno Elementary	No	No	983	N	N	Q
Humboldt County:						
Eureka City Unified	No	No	6,219	N	P	N
Ferndale Unified	No	No	167	P	Q	P
Southern Humboldt Joint Unified	No	No	1,171	Q	Q	P
Kern County:						
Beardsley Elementary	No	No	1,516	P	Q	P
El Tejon Unified	No	No	1,322	Q	P	P
Lost Hills Union	No	No	493	Q	Q	P
McFarland Unified	No	No	2,607	P	Q	P
Southern Kern Unified	No	No	3,016	P	Q	P
Tehachapi Unified	No	No	4,661	Q	Q	P
Kings County:						
Corcoran Unified	No	No	3,120	Q ²	Q	P
Kings River-Hardwick Union	No	No	533	Q ²	Q	P
Lake County:						
Upper Lake Union High	No	Yes	320	Q	Q	Q
Los Angeles County:						
Alhambra City Schools	No	No	21,593	Q	P	P
Inglewood Unified	No	No	18,384	P	Q	P
Madera County:						
Yosemite Union High	No	No	1,264	Q	P	P
Mendocino County:						
Mendocino Unified	No	No	800	Q	P	Q
Merced County:						
Planada Elementary	No	No	867	Q	P	P

¹ P = Positive Q = Qualified N = Negative

² County office of education changed certification from positive to qualified.

Appendix A (continued)

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2000-01 Average Daily Attendance	2001-02 Interim Report ¹		2000-01 Interim Report ¹ Second
				First	Second	
Monterey County:						
Gonzales Unified	No	No	2,403	Q	Q	P
Monterey Peninsula Unified	Yes	Yes	13,378	N	N	P
Nevada County:						
Ready Springs Union	No	No	426	Q ²	Q	P
Twin Ridges Elementary	No	No	1,233	P	Q	P
Placer County:						
Ackerman Elementary	No	No	314	Q	P	P
Penryn Elementary	No	No	299	Q	P	P
Sacramento County:						
Natomas Unified	No	No	5,726	Q	Q ²	Q
San Benito County:						
Hollister Elementary	No	No	5,731	Q	Q	Q
San Bernardino County						
Trona Joint Unified	No	No	389	Q	P	P
Santa Clara County:						
Alum Rock Union	No	No	14,930	P	Q	P
Orchard Elementary	No	Yes	731	N	N	P
Santa Cruz County:						
Santa Cruz City	No	No	8,554	Q	Q	Q
Shasta County:						
Fall River Joint Unified	No	No	1,409	P	Q	Q
Sierra County:						
Sierra-Plumas Joint Unified	No	No	692	N	N	Q
Siskiyou County:						
Weed Elementary	No	No	418	P	Q ³	Q
Solano County:						
Vacaville Unified	No	Yes	14,505	Q	Q	P
Vallejo City Unified	Yes	Yes	19,490	Q	Q	P
Sonoma County:						
Bellevue Elementary	No	No	1,604	P	Q	P
Cloverdale Unified	No	No	1,508	Q	Q	Q
Geyserville Unified	No	No	348	Q	Q	P
Oak Grove Union Elementary	No	No	576	Q	P	P
Sonoma Valley Unified	No	No	4,723	P	Q	P
Tehama County:						
Red Bluff Union Elementary	No	No	1,846	P	Q ²	P
Tuolumne County:						
Jamestown Elementary	Yes	No	496	Q	P	P
Twain Harte-Long Barn Union	No	Yes	638	P	Q	P
Yolo County:						
Esparto Unified	No	Yes	805	Q	Q	P

¹ P = Positive Q = Qualified N = Negative

² County office of education changed certification from positive to qualified.

³ California Department of Education changed certificate from positive to qualified.

Appendix B— School Districts Filing Qualified or Negative Interim Reports

County School District	1 st /2 nd Certification ¹	Deficit Spending	Inadequate Reserves	Revenues Over- Estimated	Loan Repayment Pending	Analysis of Key Indicators For Financial Difficulties				
						Declining Enrollment	Enrollment Growth Projection	Payroll/ Benefit Problems	Audit Adjustments/ Settlements	Fiscal Advisor
Alameda County:										
Albany Unified	N/Q	•								
Berkeley Unified	N/N	•	•					•		
Emery Unified	N/N	•	•	•			•			
Amador County:										
Amador COE	Q/Q	•								•
Amador County Unified	Q/Q	•								•
Contra Costa County:										
Canyon Elementary	Q/P					•				
Pittsburgh Unified	Q/P	•								
Fresno County:										
Coalinga-Huron Unified	P/Q	•	•							
Washington Union High	P/Q	•								
West Fresno Elementary	N/N		•							
Humboldt County:										
Eureka City Schools	N/P		•							
Ferndale Unified	P/Q		•							
Southern Humboldt Joint Unified	Q/Q		•							
Kern County:										
Beardsley Elementary	P/Q	•	•							
El Tejon Unified	Q/P	•								
Lost Hills Union	Q/Q	•	•							
McFarland Unified	P/Q	•	•							
Southern Kern Unified	P/Q	•								
Tehachapi Unified	Q/Q		•							
Kings County:										
Corcoran Unified	Q/Q		•							
Kings River-Hardwick Union	Q/Q		•		•					
Lake County:										
Upper Lake Union High	Q/Q			•						

¹ P=Positive Q=Qualified N=Negative

Appendix B (continued)

County School District	1 st /2 nd Certification ¹	Deficit Spending	Inadequate Reserves	Revenues Over- Estimated	Loan Repayment Pending	Analysis of Key Indicators For Financial Difficulties				
						Declining Enrollment	Enrollment Growth Projection	Payroll/ Benefit Problems	Audit Adjustments/ Settlements	Fiscal Advisor
Los Angeles County:										
Alhambra City Schools	Q/P	•		•					•	
Inglewod Unified	P/Q	•						•	•	
Madera County:										
Yosemite Union High	Q/P		•							
Mendocino County:										
Mendocino Unified	Q/P		•	•						
Merced County:										
Planada Elementary	Q/P	•								
Monterey County:										
Gonzales Unified	Q/Q	•								
Monterey Peninsula Unified	N/N	•	•	•						
Nevada County:										
Ready Springs Union	Q/Q					•				
Twin Ridges Elementary	N/Q			•						
Placer County:										
Ackerman Elementary	Q/P							•		
Penryn Elementary	P/P		•					•		
Sacramento County:										
Natomas Unified	Q/Q		•	•						
San Benito County:										
Hollister	Q/Q	•								
San Bernardino County:										
Trona Joint Unified	Q/P	•	•							
Santa Clara County:										
Alum Rock Union	P/Q	•								
Orchard Elementary	N/N	•	•							
Santa Cruz County:										
Santa Cruz City	Q/Q	•	•			•				
Shasta County:										
Fall River Joint Unified	P/Q		•							

¹ P=Positive Q=Qualified N=Negative

Appendix B (continued)

County School District	1 st /2 nd Certification ¹	Deficit Spending	Inadequate Reserves	Revenues Over- Estimated	Loan Repayment Pending	Analysis of Key Indicators For Financial Difficulties				
						Declining Enrollment	Enrollment Growth Projection	Payroll/ Benefit Problems	Audit Adjustments/ Settlements	Fiscal Advisor
Sierra County:										
Sierra-Plumas Joint Unified	N/N		•	•				•		
Siskiyou										
Weed Elementary	P/Q			•						
Solano County:										
Vacaville Unified	Q/Q									
Vallejo City Unified	Q/Q		•							
Sonoma County:										
Bellevue Elementary	P/Q		•				•			
Cloverdale Unified	Q/Q	•								
Geyserville Unified	Q/Q	•	•							
Oak Grove Union Elementary	Q/P	•	•							
Sonoma Valley Unified	P/Q	•	•			•				
Tehama County:										
Red Bluff Union Elementary	P/Q	•					•			
Tuolumne County:										
Jamestown Elementary	Q/P									
Twain Harte-Long Barn Union	P/Q		•			•				
Yolo County:										
Esparto Unified	Q/Q	•				•				

¹ P=Positive Q=Qualified N=Negative

Appendix C— Summary of Audit Report Problems

Description	Number of Findings	
	1999-2000	2000-01
<u>Auditor's Opinion</u>		
The auditor's qualified opinion due to departure from generally accepted accounting principles (GAAP) did not provide substantive reason for departure and/or did not disclose possible effects on financial statements.	5	10
The introductory paragraph of the auditor's report did not clearly identify financial statements covered by the auditor's opinion.	0	1
The auditor's opinion did not state that the financial statements conform with GAAP.	0	3
The auditor's report did not state that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and government auditing standards.	2	3
Reference to a separate report on compliance and on internal control over financial reporting was not included.	1	1
Auditor's reports did not include a manual or printed signature of the auditor's firm and the date of the report.	2	1
	<u>10</u>	<u>19</u>
<u>Financial Statements</u>		
The combined balance sheet was not properly presented.	2	1
The fund balance was not properly reserved for material nonexpendable assets.	11	17
The combined budget and actual statement was not properly presented.	1	0
Long-term debt was improperly reported and presented.	10	7
Interfund receivables did not equal interfund payables.	3	3
All component units and/or joint ventures (JPEs) related to the entity were not identified.	3	0
Reserves were not appropriate, and their nature and purpose were not clear.	23	17
	<u>53</u>	<u>45</u>
<u>Notes to the Financial Statements</u>		
All activities, organizations, or functions of government related to the entity were not identified.	0	2
The notes did not adequately disclose all material items necessary for a fair presentation of the financial statements (long-term debt, issuance of certificates of participation, pension obligations, prior period adjustments, etc.).	0	1
The notes did not adequately disclose pension obligations.	1	1
The notes did not include full disclosure with respect to long-term debt.	15	4
The notes did not adequately disclose prior period restatements or adjustments.	10	2
The notes did not adequately describe the criteria used in determining whether other entities should be considered component units of the reporting entity.	4	5
	<u>30</u>	<u>15</u>

Appendix C (continued)

Description	Number of Findings	
	1999-2000	2000-01
<u>Supplemental Information Section</u>		
The Schedule of Expenditures of Federal Awards did not include the required federal catalog numbers; and total expenditures for each federal program were not listed; or the schedule did not include all the required programs. (For FY 1999-2000, the SCO reviewed additional attributes identifying the following:		
<ul style="list-style-type: none"> • Individual federal programs by federal agency and, for a cluster of programs, individual programs within the cluster. • For federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.) 		
This accounts for the significant increase in the number of deficiencies.	305	152
The notes did not disclose the district's participation in the Early Retirement Incentive program.	2	3
The auditor's report did not include an opinion on supplementary information.	0	1
The reconciliation of annual financial and budget report with audited financial statements was not included.	4	2
The auditor's report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards.	0	1
The Schedule of Financial Trends and Analysis was omitted or contained deficiencies.	2	0
The Schedule of Expenditures of Federal Awards was not included.	1	1
The Schedule of Instructional Time was not included or schedule was deficient.	4	0
	<u>318</u>	<u>160</u>
<u>Internal Control Section</u>		
The Report on Compliance and on Internal Control Over Financial Reporting did not reference the financial statements audited.	156	110
The Report on Compliance and on Internal Control Over Financial Reporting was deficient.	69	22
The Auditor's Report on Compliance and Internal Control in accordance with Government Auditing Standards was not included.	0	1
The Report on Compliance and on Internal Control Over Financial Reporting did not include a statement that the audit was conducted in accordance with GAAS and GAS.	0	1
	<u>225</u>	<u>134</u>

Appendix C (continued)

Description	Number of Findings	
	1999-2000	2000-01
<u>Findings and Recommendations Section</u>		
There was no report on the auditee's corrective action plan to eliminate noncompliance included in the report.	12	16
The audit findings were not coded with the correct five-digit number.	17	3
Noncompliance was reported, but sufficient data was not presented.	46	19
The Schedule of Instructional Time indicates noncompliance with the requirements, but the finding was not included in the report.	5	1
The fiscal impact resulting from noncompliance was not quantified.	101	45
Available reserves are below the minimum required, and management's plans and/or going concern note was not included.	11	10
The summary of auditor's results was not included.	1	2
Major federal programs were not identified.	2	1
The summary schedule of prior audit findings was not included	4	1
Sufficient information for judging the frequency and consequences of noncompliance was not included.	116	32
Questioned or unsupported costs material to the financial statements were not properly disclosed.	<u>0</u>	<u>1</u>
	<u>315</u>	<u>131</u>
Total number of findings	<u>1,037</u>	<u>543</u>

Appendix D— Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE		
Adult Education	Attendance accounting deficiencies	13
	Attendance report does not reconcile	5
	Other findings	5
Child Development	Other findings	2
	Lack of documentation/records	1
	Reported revenue erroneous	2
Longer Instructional Day	Instructional time requirements not met	14
	Other findings	7
	Lack of documentation/records	1
Continuation Education	Other findings	4
	Attendance accounting deficiency	13
Independent Study	Other findings	16
	Contract did not include all required elements	24
	Work samples not retained	6
	Attendance overstated	15
Summer School	Attendance accounting deficiencies	13
State Instructional Materials Fund	Expenditures not allowable	8
	Public hearing on instructional materials held after June 30	20
	Ten-day notice of public hearing not posted at three public locations in district	16
	More than 30% of allowance and interest expended on non-adopted materials	12
	Other findings	11
	Adopted/nonadopted requirements not met.	5
Attendance Requirements	Interest earned on allowance not allocated to the program	2
	Excused absences—problems with verification procedures/documentation	4
	Attendance accounting system not approved by CDE	2
	Attendance registers/scantrons not signed by teacher	20
	Attendance report does not reconcile to supporting documentation	15
	Attendance report inaccurate/incomplete	21
	Lack of documentation/records	8
	ADA overstated by 0-5 ADA	91
	ADA overstated by 5-10 ADA	8
	ADA overstated by 10-20 ADA	7
	ADA overstated by over 20 ADA	10
	Kindergarten retention forms not maintained and/or not in compliance with state requirements	61
	Absences claimed for apportionment	17

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Attendance	Incorrect reporting of attendance for staff development days	28
Requirements	Incorrect application of positive/negative attendance accounting	4
(continued)	ADA understated by 0-5 ADA	32
	ADA understated by 5-10 ADA	5
	ADA understated by 11-20 ADA	8
	ADA understated by over 20 ADA	8
	Student not eligible for admittance to kindergarten	9
	Enrollment not reconciled to monthly attendance reports	11
	Other findings	17
Inventory of Equipment	Inventory of equipment not maintained	41
Gann Limit Calculation	Appropriation limit calculation deficiency	4
Class-Size Reduction	Number of classes and pupils reported on Form J-7 CSR understated	42
	Number of classes and pupils reported on Form J-7 CSR overstated	51
	Lack of documentation/records	1
	Teacher training not completed/not documented	3
	Other findings	14
	Positive daily enrollment records/counts not maintained	1
Grade 9 Class Size Reduction	Lack of documentation/records	4
	Number of classes and pupils reported on Form J-9 MH-A understated	15
	Number of classes and pupils reported on Form J-9 MH-A overstated	14
	Other findings	9
	Average pupil enrollment count not used	4
Schiff-Bustamante	Expenditures not allowable	47
	Other findings	1
Digital High School	Local match requirement not met	3
	Other findings	2
Deferred Maintenance	Expenditures not allowable	10
	Other findings	2
Staff Development Days	Staff Development held on minimum days	2
	Lack of documentation/records	3
	Other findings	19
Other State Programs	Financial report inaccurate/not complete/multi-funded positions not supported	1
	Financial report/claim not filed/filed late	1
	Other findings	11
Regional	Attendance accounting deficiencies	4
Occupational Center/Program	Attendance report does not reconcile to supporting documentation	1

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Community Day Schools	Attendance report inaccurate	4
State Categorical Programs	Lack of documentation/records	1
California Public Library Act	Expenditures not allowable	35
	Other findings	<u>5</u>
Total state findings		<u>956</u>
FEDERAL		
Special Education	Subrecipient monitoring	1
	Special tests and provisions	1
	Expenditures overstated	1
Head Start	Reporting	1
	Procurement/suspension/debarment	1
Migrant Education	Expenditures overstated	1
	Special tests provisions	2
	Subrecipient monitoring	1
Federal Programs	Noncompliance with requirements for allowable costs/cost principles	4
	Noncompliance with requirements for equipment and real property management	15
	Noncompliance with requirements for cash management	1
	Multifunded position not supported by time distribution records	30
	Noncompliance with requirements for procurement/suspension/debarment	2
School Breakfast Program	Eligibility of participants	1
	Reporting requirements	2
	Lack of documentation/records	3
National School Lunch	Eligibility of participants	9
	Lack of documentation/records	9
	Financial report inaccurate	2
	Expenditures overstated	3
	Expenditures understated	10
	Types of services allowed/unallowed	4
	Reporting requirements	5
	Special tests and provisions	10
	Allowable costs/cost principles	2
	Reported revenue erroneous	2
	Financial report/claim not filed/filed after deadline	3
	Reported expenditures do not reconcile to general ledger	4
	Equipment and real property management	2
	Procurement/suspension/debarment	1
	Other findings	8

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL (continued)		
Title I—	Cash management	1
Grants to LEAs	Equipment and real property management	5
	Period of availability of federal funds	1
	Expenditures overstated	1
	Financial report inaccurate	1
	Eligibility of participants	2
	Special tests and provisions	2
	Allowable costs/cost principles	5
	Lack of documentation/records	5
	Other findings	2
	Matching level of effort, earmarking	1
Other Federal	Reporting requirements	3
	Procurement/suspension/debarment	1
	Allowable costs/cost principles	1
	Subrecipient monitoring	2
	Equipment and real property management	3
	Other findings	<u>15</u>
Total federal findings		<u>192</u>
Total state and federal findings		<u><u>1,148</u></u>

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>